



## Internal Audit Report

### Purchasing Cards

Issued: 17 April 2018

Final

<b>Level of Assurance</b>	The control framework is of a <b>good</b> standard with only minor elements of risk identified which are either accepted or being dealt with by management.
---------------------------	---

<b>Table of Contents</b>	
Page 1	Executive Summary
Page 5	Audit Issues and Management Action Plan
Page 13	Definitions of Ratings and Distribution List (Appendix 1)
Page 15	Terms of Reference (Appendix 2)

# Midlothian Council - Internal Audit Report – Purchasing Cards

## Executive Summary

### 1.0 Introduction

Midlothian Council's purchasing cards are Mastercard charge cards supplied by the Royal Bank of Scotland. They are used typically for the purchase of high volume, low value goods and services. The use of purchasing cards is administered and monitored by the Finance and Integrated Service Support Service within Resources. Purchasing cards were first introduced in March 2015, replacing previous corporate credit cards and also facilitating significantly less reliance on petty cash transactions and reimbursements. They have been rolled out to all areas of the Council within the Purchase to Pay project plan other than Children's Services, with the intention to introduce to this area in 2018/19.

The Council's procurement procedures apply as normal for purchases made via purchasing cards and they should not be used to circumvent approved procurement methods, especially where contracts are in place.

Purchasing cards have the benefit of providing a stronger audit trail and authorisation record through integration with the Council's finance system, Integra, especially when compared with other less secure means of payment such as Petty Cash. The roll-out of purchasing cards was part of the Council's plan in reducing Petty Cash spend. Accordingly, a noticeable reduction in the Council's Petty Cash spend has been demonstrated since the introduction of purchasing cards as detailed below:

<b>Financial Year</b>	<b>Total Petty Cash Spend inc. VAT (£)</b>	<b>Total Purchasing Card Spend inc. VAT (£)</b>
<b>2015/16</b>	138,089	122,714
<b>2016/17</b>	99,754	604,060
<b>2017/18 (up to 31<sup>st</sup> January 2018)</b>	92,806	631,390

Transactions made via purchasing cards are imported into the Council's finance system, Integra, on a weekly basis. The statements download is taken by the Business Applications Team (within Business Services) and the file is checked for any obvious anomalies, prior to being imported into Integra. Once imported, the transactions are distributed to cardholders via automatic workflow within the Integra system and cardholders receive an email advising that they have Purchasing Card transactions requiring their verification.

# Midlothian Council - Internal Audit Report – Purchasing Cards

---

Proof of purchase documentation must be provided for every transaction. As part of verifying purchase card transactions, cardholders must scan and save their proof of purchase documentation (eg invoice, purchase order or receipt) and attach to the relevant purchase card payment within Integra. The cardholder must then, within Integra, submit the details of the purchase card payment, along with the relevant proof of purchase documentation, to their manager for authorisation. This authorisation request submission is part of Integra's authorisation workflow and will generate an email to the appropriate manager advising that they have purchasing card transactions requiring their authorisation.

Financial Services separately download the relevant statement reports from the Royal Bank of Scotland system to complete the Council's main bank reconciliation, which includes reconciling the payments made using purchasing cards via a control account.

Training on the use of purchasing cards, guidance, and Council procedures, are provided by the Business Applications team. Cardholders (and Authorisers) must attend a training course on card spend, authorisation process, VAT reclaims etc. prior to receiving their card. All Cardholder and Authorisers are issued with a copy of the Purchase Card User Guide on attendance at a training course.

A Personal Information Disclaimer form must be completed by cardholders in order to comply with the bank's anti-money laundering regulations and this should be authorised by the relevant line manager who will also detail the credit limit for the card.

Once the employee has received the purchasing card, they must sign a Declaration & Receipt of Purchase Card form. This form outlines the cardholder's responsibilities and security requirements (eg to keep card safe, to ensure VAT is reclaimed whenever possible, to ensure transactions are authorised in good time, procedures to apply if card is suspected to be lost or stolen, etc.)

As at 15 February 2018, 263 purchasing cards have been issued to Council employees and as at 31 January 2018, 14,160 transactions have been made totalling £1.359 million using the cards since their introduction.

## **2.0 Objectives of the Audit**

The audit objective is to provide assurance on the adequacy of the internal controls in place for the Council's use of purchasing cards. A copy of the terms of reference for the review is attached at Appendix 2.

## **3.0 Conclusion**

Our audit identified that management have implemented a number of systems, internal controls, and procedures for purchasing cards. During the course of the audit we noted the following strengths:

## Midlothian Council - Internal Audit Report – Purchasing Cards

---

- policies and procedures outlining how purchasing cards should be controlled have been created by management and distributed to the appropriate employees;
- training on the use of purchasing cards and application of Council procedures is in place for purchase card users;
- support on the use of purchasing cards is available through a 'helpdesk' provided by the Business Applications team;
- an audit trail of the approval of the issue of purchasing cards is in place through the Personal Information Disclaimer form which is retained by the Creditors team;
- an audit trail of the cardholder's agreement to comply with Council procedures is in place through the Declaration & Receipt of Purchase Card Form and retained by the Creditors team;
- a strong audit trail of the payment and authorisation record is in place through the Integra financial system;
- segregation of duties is enforced for this system through purchase of goods and upload of proof of purchase by the cardholder, authorisation by their manager, upload of card statements by the Business Applications team, and bank reconciliations by Financial Services. Issuing of cards and amendments to card permissions is separately managed by the Council's Creditors team, and any changes to card permissions require authorisation by the cardholder's line manager;
- standards of evidence for the reclaim of VAT is monitored by Business Applications to ensure VAT is only reclaimed when a valid VAT invoice has been uploaded by the Cardholder; thus maintaining compliance with HMRC regulations;
- appropriate restrictions are in place on all purchasing cards preventing these being used for withdrawal of cash or purchase of fuel without specific authorisation for this being granted;
- processes are in place to review for leavers and ensure leavers' cards are returned to the Council's Creditors team; and
- quarterly review of spend with each line manager's assigned accountant within Financial Services.

Some areas were identified with scope for improvement. These are as follows:

- some cardholders are late in uploading evidence of payment, verifying, and sending the payment for authorisation to their manager. Late authorisation of payment results in the Council's financial commitments and budgets not being fully up to date, as the posting is not credited from the Purchase Card control account until approved by the authoriser. Additionally, a great deal of time has to be spent by Business Applications reporting and chasing up employees failing to verify transactions;
- in the audit sample reviewed, some off-contract spend was noted, particularly for Education's (schools) use of purchasing cards. This issue has been highlighted to the Council's Procurement team;
- Procurement have not recently carried out reviews focussing on procurement compliance for purchasing cards;
- as part of the audit sample reviewed, it was noted that some employees had failed to select within Integra to reclaim VAT when verifying their transaction despite uploading a VAT invoice. These errors were not subsequently identified by the manager during authorisation of the transaction resulting in VAT not being reclaimed;

## Midlothian Council - Internal Audit Report – Purchasing Cards

---

- the audit identified some purchasing cards that have been issued to the Cardholder but have never been used;
- some examples were noted where the documentation outlining the initial approval of the card (the Personal Information Disclaimer form) was missing, had errors, or were not adequately authorised. Also, some instances were noted where the acceptance of responsibility of the card by the cardholder (the Declaration & Receipt of Purchase Card form) could not be located, and it was not possible to establish the date training was received for most of the audit sample;
- it was noted that whilst a robust audit trail of credit card limit amendments is in place via an e-form within Integra (an electronic form request submitted by the relevant manager within the Integra system), at the time of the review there was no record in place for requests by managers to change the category permissions for cards (eg to temporarily allow the card to be used for fuel or cash); and
- some areas have been identified where further guidance and procedures could be provided to employees.

As noted above, the most significant issues relating to purchasing cards is user compliance with the Council's procedures rather than issues with Integra purchase card controls and Business Applications procedures. These controls and procedures were evidenced as being fit for purpose during the review.

We have therefore on this occasion rated this audit as **good** in accordance with the Definitions of Ratings included on page **13**. We have raised 10 Medium and 3 Low rated recommendations which are detailed in the Audit Issues and Management Action Plan to reduce risk further and these recommendations have been agreed by Management.

## 4.0 Audit Issues and Management Action Plan

### 4.1 Late Authorisation of Purchase Card Payments and Compliance with Purchase Card Guidance

#### Late Authorisation

Business Applications recommend that authorisations should be done within 7 days to ensure that financial monitoring remains robust. At the time of the audit review (extract of purchase card data on 23 October 2017) there was a total of 615 separate payments with a total financial value of £46,491 that had not yet been authorised by management.

125 of these payments, with a total value of £10,126, had been rejected due to the manager not accepting the level of evidence provided at the time by the purchase cardholder. A system issue that emerged in November 2016 was not allowing some of these rejected transactions to be resubmitted for approval by the manager, but this issue has since been resolved (in November 2017).

Excluding the rejected transactions, 133 of these payments with a total value of £12,086 were made before 24 September 2017 (ie 1 month old) and had never been submitted to management for authorisation. 52 of these payments with a total value of £2,564 were made before 24 August 2017 (ie 2 months old) and had never been submitted to management for authorisation.

It was noted during the review that significant staff time is spent 'chasing' certain employees to ensure they uploaded proof of payment and submitted the payment for authorisation to management. This involves a significant number of calls, emails, and tracking of previous contact with the cardholders. Additional support has been provided from Business Applications for employees not authorising transactions promptly, but the problem has still persisted.

Business Applications have advised that while they have not yet suspended or cancelled a card due to continued non-compliance with the Purchasing Card procedures, they have escalated the issues to the relevant managers and if the situation does not improve they do intend to suspend or cancel cards as a last resort.

If purchases are not authorised promptly and adequate evidence is not uploaded, this increases the risk that cards could be used inappropriately and the inappropriate use not being identified by management. Additionally, late authorisation of payment results in the Council's financial commitments and budgets not being fully up to date, as the posting is not credited from the Purchase Card control account until approved by the authoriser.

# Midlothian Council - Internal Audit Report – Purchasing Cards

## Use of Card by Employees other than the Cardholder

Business Applications Management advised that they had identified that purchases were being made by a cardholder that was on long term absence. Discussion with the members of staff in the cardholder's team identified that the purchases were being made through an Amazon account the employees had shared access to. Shared access to online accounts is disallowed in the Purchase Card Procedures and the card was subsequently cancelled. As the other members of staff did not have access to the Cardholder's Integra account, it was not possible for the other employees to submit purchases for authorisation and upload relevant evidence to Integra. No disallowable expenditure was noted.

## Failure to Upload Proof of Purchase

In one example from the sample of 30 payments reviewed, it was noted that no proof of purchase was uploaded however the payment was authorised by the manager.

No	Recommendation	Priority	Manager	Target Date
1	If a purchase cardholder routinely fails to upload proof of purchase and submit payments to their line manager to review in good time, as required by the Purchase Card Procedures, the purchase card should be suspended or cancelled. Similarly, this approach should be taken if the cardholder regularly fails to comply with any other aspects of the purchase card guidance (e.g. failing to claim for VAT).	Medium	Business Applications Manager	30/06/2018
2	Heads of Service should remind cardholders of the importance of complying with the purchase card guidance. This includes ensuring all relevant VAT is reclaimed, adequate proof of purchase is attached, and ensuring transactions are authorised promptly.	Medium	Heads of Service supported by the Business Applications Manager	30/06/2018

## **4.2 Compliance with Procurement Procedures**

A sample of 30 Purchase Card transactions were reviewed in detail as part of the audit. It was identified in the sample that Education (schools) were making purchases for educational supplies and music equipment using suppliers outside the Council's framework agreements. This issue has been highlighted to the Council's Procurement team. Off-contract spend may not represent best value for the Council and may result in the potential loss of rebate from particular contract frameworks.

## Midlothian Council - Internal Audit Report – Purchasing Cards

There is a risk that purchasing cards could be used to bypass existing controls for the use of approved Council suppliers. Although the Procurement team periodically carry out analysis on the Council's spend for compliance with Procurement Procedures, it was noted that there had not been recent analysis on procurement compliance specifically for purchase card spend.

No	Recommendation	Priority	Manager	Target Date
3	Procurement should review Schools' Purchase Card spend to establish the reasons for the off-contract spend and provide further guidance and support to staff.  <b>Management Comment:</b> Updated schools procurement guidance is in development (refreshed 'crib sheet'). Once updated, this will be posted to the schools intranet pages to provide further support to schools staff. Potential procurement issues were discussed at a recent head teachers meeting on 29 March 2018, and further support will be provided through regular meetings with the schools admins to discuss contracts.	Medium	Procurement Manager	31/07/2018
4	Procurement should periodically carry out specific analysis on Purchase Card spend for compliance with Procurement Procedures.	Medium	Procurement Manager	31/08/2018

### 4.3 Reclaim of VAT

#### Cardholders' Failing to Input VAT

From the sample of 30 Purchase Card transactions reviewed, it was noted that 3 had VAT on the proof of purchase provided by the cardholder, but the cardholders had not separately input the VAT in Integra when verifying the transaction to enable the VAT to be reclaimed by the Council.

The purchasing card payment record was reviewed by Internal Audit for other transactions where VAT may have been missed; a sample of transactions over £500 were reviewed to identify if there were cardholders who repeatedly do not claim for VAT. £2.6k of unclaimed VAT was identified from this review. This VAT can still be reclaimed as it is allowable to reclaim missed VAT going back over 4 years provided the evidence to support the claim is available.

#### Rejected VAT Invoices

When VAT is claimed by the cardholder every VAT invoice is checked by Business Applications to ensure that a valid VAT invoice has been stored in Integra to ensure the reclaim is valid. This control ensures that the Council will not inappropriately over-claim VAT it is not eligible to receive.



## Midlothian Council - Internal Audit Report – Purchasing Cards

---

The simplified invoicing rules published by HMRC state that for purchases less than £250, a full VAT invoice is not required for the reclaim of VAT. For example, the purchase of goods valued at more than £250 requires the customer's name (eg Midlothian Council) to be detailed on the invoice for it to be valid for the reclaim of VAT, but this is not a requirement for purchases valued at less than £250. 1 month of rejected VAT from Purchasing Card transactions was reviewed as part of the Audit (rejected due to low quality of evidence provided by the Purchase Cardholder). It was noted that for purchases of less than £250, sometimes VAT was being rejected on the basis of the receipt or invoice provided by the cardholder, but examples were noted where the proof of purchase attached were valid for VAT reclaim.

Similarly, 2 examples were noted where a less detailed sales invoice had been provided by the supplier which had been adapted into a sales voucher/receipt and the VAT was rejected on the basis of the evidence provided. On discussion with the Senior Accountant Projects and Treasury, these examples provided sufficient evidence to allow for reclaim of VAT.

### Lack of or invalid VAT Invoices

For some suppliers it may not be possible or be very difficult to get a VAT invoice, particularly when purchase can only be made online via card. However, some examples were noted in the review where payment confirmation or the purchase order was uploaded as evidence, where it should have been possible for the Cardholder to receive a full invoice (eg for a payment made to a Council supplier). VAT can normally only be reclaimed with a valid VAT invoice.

Additionally, in the audit sample reviewed, 2 examples were noted where the invoice was not addressed to Midlothian Council as the Cardholder's online account had not been set up properly (VAT cannot be reclaimed if the invoice is not addressed to the Council). The VAT had not been claimed for these purchases.

No	Recommendation	Priority	Manager	Target Date
5	Unclaimed VAT identified during the audit review should be reclaimed.	Low	Business Applications Manager	31/07/2018

## Midlothian Council - Internal Audit Report – Purchasing Cards

No	Recommendation	Priority	Manager	Target Date
6	<p>Management should familiarise employees carrying out the Purchase Card VAT checking with the HMRC guidance on simplified invoicing to ensure that valid VAT on low value (&lt;£250) invoices is not incorrectly rejected. Likewise, management should familiarise employees carrying out the Purchase Card VAT checks on the requirements for accepting evidence for VAT where the invoice has been adapted into a sales voucher/receipt for online transactions.</p> <p><b>Management Comment:</b> This will be addressed through upskilling staff carrying out the checks.</p>	Medium	Business Applications Manager	31/07/2018
7	As part of the VAT check, employees regularly failing to upload satisfactory proof of payment should be highlighted so appropriate action can be taken by the service to address the issues.	Medium	Business Applications Manager	31/07/2018

#### 4.4 Audit Trail of Card Issue, Cardholder Declaration, and Training

The audit trail of cardholder declarations, personal information disclaimers, and cardholder training records was reviewed as part of the audit. The records for a sample of 20 cardholders were checked. It was noted that:

- 4 Personal Information Disclaimer forms had not been signed by an authoriser and they did not detail the card's credit limit;
- 3 Cardholders did not have a Personal Information Disclaimer form saved in the directory, therefore preventing confirmation that the Card was correctly authorised as well as the card limit being authorised;
- 3 Cardholders did not have a signed Declaration & Receipt of Purchase Card form; and
- 2 out of the 13 cardholders' limits authorised on the Personal Information Disclaimer forms did not match the limits included within the data provided by the Payments Team for the test and the differences could not be matched to an e-form credit limit change request.

Also, it was noted that there was no separate record saved of when training was attended for cardholders who received their card prior to October 2016. However, it can be assumed that if the Declaration & Receipt of Purchase Card form has been signed then training had been attended, and this was confirmed via discussion with Purchase Card users.

On discussion with the Lead Applications Officer, it was thought the errors above were due to steps being missed when a large purchasing card roll-out was taking place. For these card implementations, there was continual discussion with management on requirements, and clarity on the users receiving the card and the limits they should have.

## Midlothian Council - Internal Audit Report – Purchasing Cards

---

No	Recommendation	Priority	Manager	Target Date
8	Management should ensure that for all cardholders there is a Personal Information Disclaimer, a signed Declaration & Receipt of Purchase Card form, and a record of the date training was attended. This review should include ensuring that any differences between the credit limit on the card and limit in the PID are supported by an authorised e-form request.	Medium	Business Applications Manager	31/07/2018

### 4.5 Cardholder Guidance

All employees who attend the purchasing card training are provided with a copy of the Purchase to Pay Purchasing Card User Manual which is also accessible from the Procurement section on the Council's Intranet. The guide provides clear instructions on the use, security and administration processes involved in using a Purchasing card. There is also a varied selection of 'how-to' guides within the Procurement section of the intranet which will assist cardholders and Authorisers.

A review of procedures identified the following:

- the procedure does not explicitly state that cards should not be used for personal purchases and does not outline the type of expenditure that is allowable/disallowable;
- the Management Arrangements procedure document is not on the intranet. It is understood this is mainly for management and Business Applications rather than general purchase card holders, however some sections are still relevant for purchase card holders;
- the procedures do not explicitly dissuade cardholders from purchasing from second-hand goods sellers (Health & Safety risks, unvetted supplier, potential for stolen goods, lack of warranty, risk of substandard product etc.);
- the procedures do not advise of the risks of paying directly to a website of an unvetted supplier and things to watch out for dubious websites (eg to look for the security padlock mark for secure websites, dubious Terms and Conditions etc.);
- guidance on the risks of signing up to automatic renewals when paying with a credit card online;
- the steps to take if it is suspected there are fraudulent payments on an employee's purchasing card.

No	Recommendation	Priority	Manager	Target Date
9	The procedures should be updated to address the issues noted above and a guidance update should be provided to Purchase Cardholders.	Medium	Business Applications Manager	30/09/2018

# Midlothian Council - Internal Audit Report – Purchasing Cards

## 4.6 Leavers and Use of Cards in Issue

### Leavers Process

A process is in place to check for leavers. Business Applications is part of the starter and leavers' workgroup and obtains on a monthly basis a list of leavers from the system. However, 1 leaver was missed as the leaver had been updated late in iTrent. This resulted in the leaver being missed from the parameters of the Leaver's Report. This card was then found in a locked drawer within the service. The card had not been used since the employee had left.

### Cards Not in Use

It was identified during the review that there were 15 cards from current employees who had not used their card for over 6 months. 10 of these had not used their card in a year. There is currently no process in place to request the return of unused cards.

No	Recommendation	Priority	Manager	Target Date
10	<p>Business Applications should review the parameters of the Leavers report to compensate for HR being informed late of leavers by services.</p> <p><b>Management Comment:</b> A report has been developed that reports on the modified date of the leaver's date to address this issue. This report is now in place for purchasing cards, but requires further testing before it is rolled out to the rest of the Council.</p>	Medium	Business Applications Manager	31/07/2018
11	<p>A process should be established for the return of purchasing cards no longer required by the service.</p>	Medium	Business Applications Manager	31/07/2018

## 4.7 Amendments to Cardholder Permissions

The process for requesting an amendment to a card's credit limit is controlled via an E-Form request within Integra. The system can provide a full audit trail of all past changes to credit limits for every card holder, and the employee who authorised the request. The process of changing the credit limit is limited to the Creditors team. This is segregated from the Business Applications Team.

## Midlothian Council - Internal Audit Report – Purchasing Cards

It was noted that the process for changing permissions to cards for other aspects (eg temporary permission to withdraw cash for school trips) is not driven by an E-Form. There is still a segregation in place as access to change permissions with the bank is limited to the Creditors team, however at the time of the review, there was not a full audit trail in place of past changes to card permissions and who these were authorised by. It has been advised that there are very few changes to card permissions in the year, and these are always temporary.

No	Recommendation	Priority	Manager	Target Date
12	A record should be maintained of changes to card permissions. Consideration should be given to developing an E-Form for card permission changes.	Low	Business Applications Manager	31/07/2018

### 4.8 Central Monitoring and Posting to Cost Centres

#### Reporting on Proof of Purchase Upload

It was noted that it is currently not possible to report on the number of cardholders who have failed to upload proof of purchase. This information would allow monitoring at a high level of general cardholder compliance with the procedures.

#### Risk of Mis-postings

It is possible for purchase cardholders to post to any cost centre. However, there are mitigating controls in place to prevent and detect mis-postings. All purchases must be authorised by the cardholder's manager and this includes a review of the cost code. Additionally, Integra will default to the user's primary cost centre for all purchase card transaction verifications meaning it's most likely for the cardholder to always post to their primary cost centre. Also, there is quarterly review of cost centres by Financial Services with their line manager.

Business Applications have advised that at the moment it is not feasible to set specific user profiles for each cardholder limiting their ability to post to all cost centres. This is because each cardholder would require a unique profile and managing this would be a significant undertaking. However, a project is underway that is looking at cost centre access in general (Integrated Service Support Transactions Project) which will further address this risk.

No	Recommendation	Priority	Manager	Target Date
13	Management should review with the software supplier if it would be possible to report on the total number of transactions that do not have proof of purchase attached.	Low	Business Applications Manager	31/12/2018

## APPENDIX 1

### Definitions of Ratings

#### Audit Opinion

Level of Control	Reason for the level of Assurance given
<b>Excellent</b>	The control framework is of a high standard with no unacceptable risks identified.
<b>Good</b>	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
<b>Average</b>	The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
<b>Weak</b>	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.
<b>Poor</b>	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.

#### Recommendation Rating

Priority	Risk Definition
<b>High</b>	Legal / regulatory issues would normally be regarded as high risks.  Strategic risks would normally be regarded as high risks.  Financial impact - £50K plus and / or national press interest
<b>Medium</b>	£5K - £49K and / or local press interest
<b>Low</b>	Under £5K and / or no press interest.

## Distribution

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Mary Smith, Director, Education, Communities and Economy
- Allister Short, Joint Director of Midlothian Health and Social Care Partnership
- Gary Fairley, Head of Finance and Integrated Service Support
- Garry Sheret, Head of Property and Facilities Management
- Ricky Moffat, Head of Commercial Operations
- Grace Vickers, Head of Education
- Ian Johnson, Head of Communities and Economy
- Joan Tranent, Head of Children’s Services
- Alison White, Head of Adult Services
- Morag Barrow, Head of Primary Care
- Kevin Anderson, Head of Customer and Housing Services
- David Gladwin, Financial Services Manager
- Jacqui Dougall, Business Services Manager
- Mike O’Rourke, Business Applications Manager
- Iain Johnston, Procurement Manager
- Gary Thomson, Senior Accountant Projects and Treasury

## Audit Team

Author:	James Polanski	Auditor
Reviewer:	Elaine Greaves	Principal Internal Auditor
	Jill Stacey	Chief Auditor

## APPENDIX 2

### TERMS OF REFERENCE: PURCHASING CARDS

#### Audit Objective and Scope

##### **Audit Background:**

To review the Council's arrangements for purchasing cards and the controls surrounding their use.

##### **Audit Objective:**

The audit will focus on the key processes and controls designed by management to ensure that purchasing cards are adequately controlled to prevent fraudulent /inappropriate use. The audit will review the adequacy of the internal controls to ensure that:

- adequate policies, procedures, and training is in place and has been provided to all purchase card users;
- purchasing cards are appropriately issued ie: credit limits set in line with Council procedures, limitations on the type of expenditure allowable (eg no fuel or cash withdrawals unless specifically authorised), cancelled without delay when no longer required, and promptly cancelled if reported lost/stolen;
- transactions are promptly verified on the system by the user with associated proof of purchase documentation correctly attached;
- transactions are authorised on a timely basis and expenditure made using purchasing cards is adequately monitored to ensure that inappropriate expenditure is not incurred and that expenditure is compliant with the Council's policies and procedures, Standing Orders, and tax requirements (eg Value Added Tax); and
- appropriate processes and controls are in place over the monthly payment of the Council's purchasing card bill and centrally adequate monitoring is in place over the Council's purchase card spend.

##### **Exclusions and Limitations**

Fuel Cards are excluded from the scope of this audit review. Accounts Payable reconciliations and BACS payment procedures and controls are excluded from this review as this is covered separately in our audit review of Accounts Payable.

#### Potential Risks

Potential risks include:



## Midlothian Council - Internal Audit Report – Purchasing Cards

- financial loss due to:
  - Fraudulent purchases – the use of a purchase card to acquire goods or services for personal use or gain.
  - Inappropriate purchases – purchases that are intended for use by Midlothian Council, but are not permitted Midlothian Council's internal policies, eg Circumventing existing and approved procurement methods and guidelines, particularly where contracts are in place.
  - Abusive purchases – purchases of goods or services at terms (eg price, quantity) that are excessive, or are for questionable need.
  - inability to reclaim VAT due to invoices not being addressed to the Council, failure to record Value Added Tax details on purchases and a lack of a valid VAT invoice / receipt);
- inadequate management information or monitoring of card usage resulting in budget overspends;
- errors in management information through either system issues or user error;
- reputational damage through reported misuse.

### Audit Approach

The audit approach consists of:

- fact finding interviews with key employees;
- review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place;
- interrogation of any relevant systems and sample testing as required;
- closure meeting with local management to discuss the findings and any recommendations from the review;
- draft and final reporting;
- presentation of the final report to Midlothian Council's Audit Committee.

### Timescales & Reporting

The Audit will commence in October 2017 and is anticipated to be reported to the next available Audit Committee.

### Information Requirements

Access to all relevant systems, documentation and employees.

### Audit Resource

<b>Auditor:</b>	<b>James Polanski</b>	<b>0131 270 5646</b>
<b>Reviewer:</b>	<b>Elaine Greaves</b>	<b>0131 271 3285</b>